HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Regina CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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NEW HOME MARKET

Housing starts to improve in 2010 and 2011

After exceeding 1,350 units in each of the previous two years, total housing starts across the Regina Census Metropolitan Area (CMA) declined 32 per cent to 930 units in 2009.

The heightened pace of starts was interrupted as builders coped with weaker demand associated with the economic downturn and the rise in spec home inventory. Single-detached house builders bore the brunt of the downturn with output in this segment 42 per cent lower than the previous year.

So far in 2010, a strengthening economy characterized by job growth,

Figure 1

Source: Source: CMHC, CMHC Forecast (f)

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1 The forecasts included in this document are based on information available as of April 23, 2010.

rising incomes and sustained in-migration has reinvigorated housing demand, especially in the single-detached sector. At 238 units, total housing starts to the end of March have outpaced last year's first quarter output of 124 units, a gain of 92 per cent. However, it is unlikely this pace of activity will continue through the balance of 2010. Concerns over rising mortgage rates and increasing house prices have likely pushed some demand forward to the early months of 2010. Builders will also limit starts in the months ahead in response to rising inventories. Accordingly, housing starts across metro are forecast to increase 7.5 per cent to 1,000 units this year. Backed by a further strengthened economy, next year will see a further uptick of 15 per cent with local builders expected to break ground on 1,150 new units.

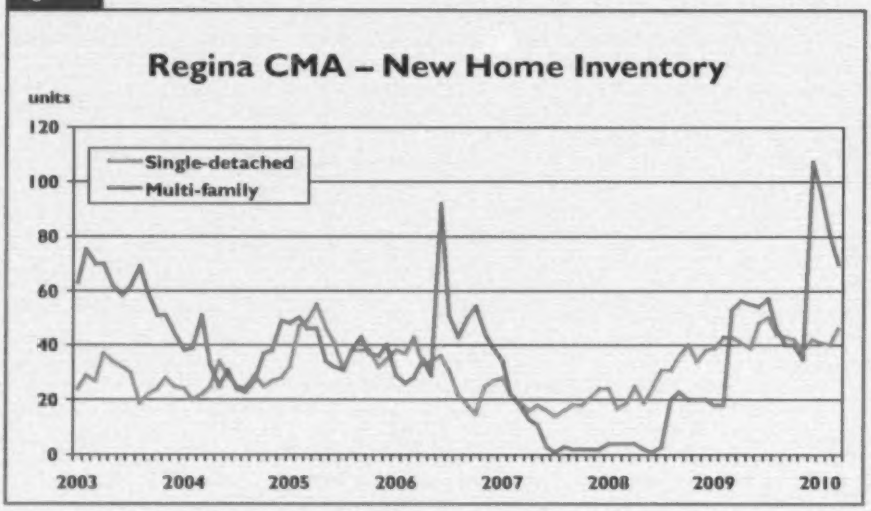
Single-detached starts step up

Regina's single-detached homebuilders poured foundations for 569 units in 2009, a 42 per cent reduction from the previous year. Last year's output represented the lowest production by local builders since 2003 when 521 units broke ground. The slower pace of construction allowed for moderation in single-detached supply, which includes units under construction and those that are completed and unoccupied. At 630 units in March, single-detached supply was 31 per cent lower than the previous year. The decline was due to units under construction, as the 584 singles underway in March were 33 per cent lower than the previous year and the lowest total since June 2007.

Despite the decline in supply, single-detached inventory totalled 46 units in March, seven per cent higher than the previous year and the highest total since July 2009. Nonetheless, the recent status of inventory should not pose concern for builders, provided future construction is predominantly based on presold units. To the end of March, single-detached starts were 20 per cent higher than 2009. However, it is unlikely this pace of activity will continue through the balance of 2010. The first quarter of 2009 was the weakest of that year, as starts declined in response to the economic downturn and heightened inventories. Conditions improved during the remaining months of 2009, thus year-over-year comparisons will narrow moving forward.

The later months of the year should see a moderation in activity, as local builders grow increasingly mindful of supply levels, particularly speculative units under construction. Nonetheless, stronger economic conditions and historically high in-migration will ensure demand for single-detached housing remains strong. In line with this, our forecast calls for a 14 per cent increase in single starts in 2010 with local builders breaking ground on 650 units. In 2011, single starts will again see an uptick to 700 units with Regina's buoyant economy again drawing in large numbers of new residents.

Figure 2



Source: CMHC

New House Price Index on the rise

Statistics Canada's New House Price Index (NHPI) measures the price increase of homes where the specifications remain the same between two consecutive periods. In 2009, the NHPI increased 5.6 per cent, far below the double-digit increases of 2007 and 2008. Price pressure will moderate further in 2010 before picking up in 2011. Within the past year, Regina's land component of the NHPI has been recording the strongest gains, as land prices rose with increased demand for newly developed lots. The house-only component, meanwhile, has experienced negligible gains as the decline in singles under construction has resulted in additional capacity in the industry. The expected increases of 3.5 per cent and 4.3 per cent in 2010 and 2011, respectively, are the lowest since 2002.

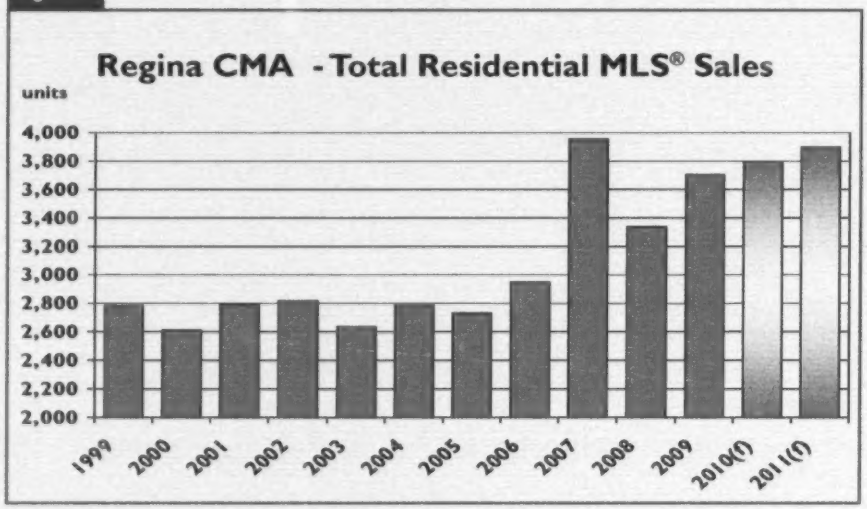
The average absorbed single-detached price is forecast to increase at a faster rate than the NHPI. Unlike the NHPI, consumer demand for larger or smaller homes with more or less features influences the average price. It is also subject to compositional effects as a shifting proportion of sales can occur in higher or lower price ranges. Driven by these factors, the average absorbed price in 2009 was $382,135, up 6.2 per cent from 2008.

Backed by record low mortgage rates, Regina homebuyers continued to show willingness to accept higher priced homes. At the end of the first quarter, 36 per cent of absorptions occurred above $450,000, up from 16 per cent the same time last year. In line with this shift, the average absorbed price is forecast to rise 11 per cent in 2010 to $425,000. Next year, buyers will face higher mortgage rates and thus may be unable to afford the additional features they would have purchased prior to the increases. Meanwhile, those looking to upgrade their existing homes will carry forward weaker equity gains compared to previous years. Thus, the shift to higher price ranges will slow with the average absorbed price rising 3.5 per cent to $440,000.

Multi-family starts to moderate in 2010 but increase next year

Multi-family starts, which include semi-detached, row, and apartment units, will decline for the third consecutive year in 2010 amid on-going concerns over heightened supply levels. New multi starts will post the weakest performance in the last four years slipping to 350 units. The persistent slowdown in starts is an attempt by builders to rein in inventories and the number of units under construction.

Figure 3



Source: CREA, CMHC Forecast (f)

For inventory, this has been working successfully in recent months. Despite a 32 per cent year-over-year gain, the 70 complete and unabsorbed units in March were 47 less than last December when inventories reached a 19-year high. Units under construction, meanwhile, remain elevated at 637 units in March, 25 per cent higher than the previous year. Provided units nearing completion get absorbed and inventories continue to moderate, a rebound in construction is expected in 2011. Local builders are forecast to break ground on 450 new multi units next year.

RESALE MARKET

MLS® sales increase over forecast period

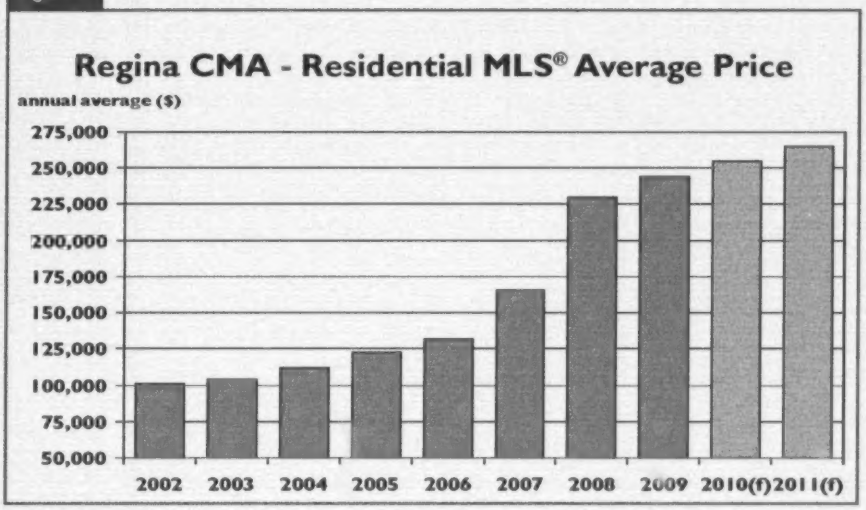
Residential transactions are on pace to reach 3,800 units this year, up 2.6 per cent from 2009. In 2011, activity will increase a further 2.6 per cent, bringing resale volumes to 3,900 units. A wide choice of listings in desirable price ranges, low mortgage rates, and a slower pace of price gains compared to previous years, will support the increase in resale volumes. Likewise, rent increases have led to a narrower spread between renting and owning, thus increasing the desire of renters to move to home ownership. Sustained job growth in 2010 and 2011 will further support housing demand by increasing incomes and encouraging in-migration.

Resale activity began the year on a strong footing with the momentum from the second half of 2009 carrying forward into 2010. To the end of March, residential transactions have totalled 800 units, 18 per cent higher than the previous year. This heightened pace of sales will moderate through the latter half of 2010, however, as rising mortgage rates and house prices begin to hamper affordability. Nonetheless, the strong sales pace at the beginning of the year will push 2010 activity above last year's levels.

Average resale price to rise

Following double-digit price increases of 26 and 39 per cent in 2007 and

Figure 4



Source: CREA, CMHC Forecast (f)

2008, respectively, the average MLS® price increased 6.3 per cent in 2009 to $244,088. An elevated level of listings contributed to the slower pace of price growth in 2009, a factor that will also shape the next few years. CMHC's forecast calls for the average price to increase to $255,000 in 2010, up 4.5 per cent from the 2009. In 2011, higher mortgage rates and heightened levels of active listings will further moderate price growth with the average price increasing 3.5 per cent to $265,000.

RENTAL MARKET

Average vacancy rate inches up

After two years of vacancy below one per cent, renters in Regina will find it easier to obtain a vacant rental unit over the forecast period. Our forecast calls for an increase in average vacancy rates in 2010, rising from 0.6 per cent in October 2009, to two per cent this year. There will be a further increase to 2.5 per cent in the 2011 survey. Rapid rent increases over the last two years have caused many renters to double up in an effort to offset the rising costs of rental accommodation. Further, new rental supply is arriving in the secondary market via condominium investments. These secondary rental suites will provide some indirect competition to Regina's rental property owners, especially in the highest rent ranges. As well, fewer units are expected to be lost from the rental universe to condominium conversion, as local policy restricts these types of investments in lower vacancy conditions.

Notwithstanding these factors, Regina's economy remains strong relative to other Prairie cities, and will capture a large share of provincial in-migration. Part-time employment gains suggest more household formation in the lower income ranges which will seek rental housing.

On balance, these factors will result in a slight increase in average vacancy rates over the forecast period.

Increases in average monthly rent to ease in 2010 and 2011

As vacancies move up in 2010 and 2011, we anticipate average rent to increase moderately in Regina. The average rent for a two-bedroom apartment will rise to $850 in 2010. This represents an $18 increase in the average monthly rent compared to the

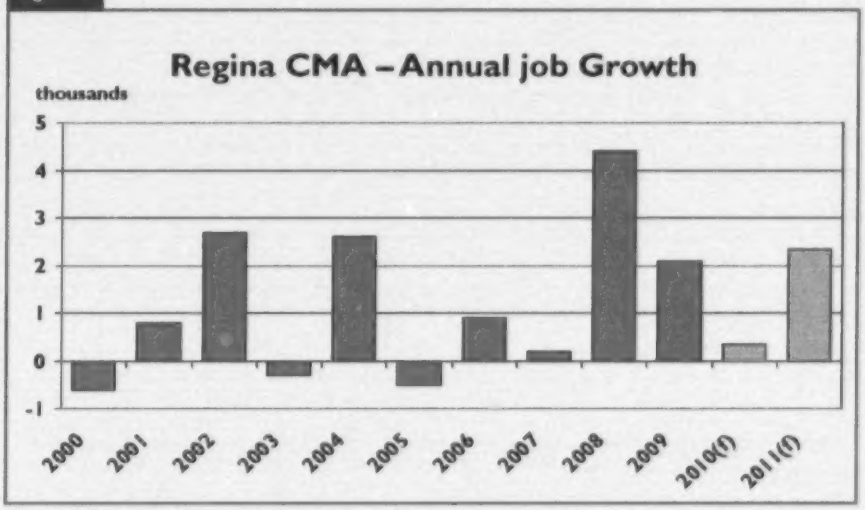
Figure 5

Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

2009 survey and is considerably lower than the rent increase recorded last year when the average monthly rent increased by $76.

The pace of rent increases will also slow to minimize the incentive for renters to move to homeownership. In 2009, rents increased at a faster rate than resale prices, causing the difference in monthly expenditures between renting and ownership to lessen. Accordingly, property owners will reduce the pace of rent increases compared to recent years in an effort to maintain and attract tenants.

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

ECONOMIC OUTLOOK

Sustained growth through forecast period

After several years of robust growth, Regina's economic expansion moderated in 2009. This was largely due to the global economic downturn, which led to weaker consumption, a decline in exports, and lower prices for commodities such as potash and oil. Notwithstanding the slowdown in economic activity, Regina experienced overall employment growth of 1.8 per cent last year, with the gains concentrated among full-time positions. The capital city's job creation also outperformed the province where employment expanded by 1.5 per cent, as well as Canada as a whole where employment contracted by 1.6 per cent. Despite Regina's annual job growth in 2009, the CMA experienced job losses in the second half of the year. Full-time positions in large sectors such as the construction, manufacturing, and public administration bore the brunt of the job losses in the latter half of 2009, countering strong gains in finance, insurance, and real estate.

The global economic recovery, in particular, the increase in commodity prices will bolster economic activity going forward. Regina is poised to recapture recent job losses as it draws in large amounts of investment in new and on-going capital projects. Major capital projects include the on-going 1.9 billion dollar refinery expansion, which is scheduled for completion in 2012. This will represent the largest capital project in Regina's history, with 1,200 staff on site when construction peaks in 2010-2011. Development of Regina's 2,000-acre global transportation hub near the airport continues, while construction crews will remain busy completing a $200 million warehouse and distribution centre. Further optimism comes with a potential investment of over $380 million in a downtown development plan, the cornerstone being a domed stadium.

CMHC anticipates employment to expand 0.3 per cent and two per cent in 2010 and 2011, respectively. Our forecast of 0.3 per cent job growth in 2010 appears low, only insofar that we are starting at a lower point at the beginning of 2010 due to the job losses in the second half of last year. Accordingly, the region has to recapture job losses from the last six months of 2009 in order for average annual employment to break even.

Net migration to set record in 2010

Regina continues to reap the benefits of lower housing costs compared to other major markets and a relatively low unemployment rate. The region's unemployment rate, while up from the low of 3.9 per cent in 2008, averaged 4.4 per cent in 2009. As a result, Regina had the lowest unemployment rate of any of the major CMAs in Canada, representing a strong attraction for new residents.

These factors helped push annual net migration in Regina to a record 3,200 people in 2009. We expect further records to be set in the capital city this year with net migration increasing 6.3 per cent to 3,400 people. The vibrant economy characterized by sustained wage increases will provide a major draw for in-migration in 2011

although continued cost increases for all forms of housing will curb some of Regina's appeal to potential migrants. Accordingly, the CMA will see a 5.9 per cent moderation in net migration in 2011 to 3,200 people.

MORTGAGE RATE OVERVIEW

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Regina CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	3,957	3,338	3,704	3,800	2.6	3,900	2.6
MLS® New Listings	4,661	6,355	6,219	6,100	-1.9	6,200	1.6
MLS® Average Price ($)	165,613	229,716	244,088	255,000	4.5	265,000	3.9
New Home Market							
Starts:							
Single-Detached	864	979	569	650	14.2	700	7.7
Multiples	534	396	361	350	-3.0	450	28.6
Starts - Total	1,398	1,375	930	1,000	7.5	1,150	15.0
Average Price ($):							
Single-Detached	305,2[illegible]	359,795	382,043	425,000	11.2	440,000	3.5
Median Price ($):							
Single-Detached	291,100	333,600	371,438	405,000	9.0	420,000	3.7
New Housing Price Index (% chg.)	22.2	26.2	5.6	3.5	-	4.3	-
Rental Market							
October Vacancy Rate (%)	1.7	0.5	0.6	2.0	-	2.5	-
Two-bedroom Average Rent (October) ($)	661	756	832	850	-	855	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	-	5.56	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	-	7.06	-
Annual Employment Level	109,800	114,200	116,200	116,650	0.4	119,000	2.0
Employment Growth (%)	0.2	4.0	1.8	0.4	-	2.0	-
Unemployment rate (%)	4.9	3.9	4.4	4.9	-	4.5	-
Net Migration (1)	2,494	3,183	3,200	3,400	-	3,200	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2009 migration data is estimated

The forecasts included in this document are based on information available as of April 23, 2010.

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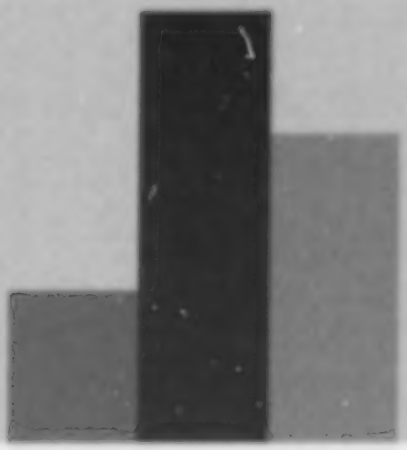

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